VZCZCXRO3558
OO RUEHBZ RUEHDU RUEHJO RUEHMR RUEHRN
DE RUEHSB #0531/01 1821212
ZNR UUUUU ZZH
O 011212Z JUL 09
FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4665
INFO RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHAR/AMEMBASSY ACCRA 2920
RUEHDS/AMEMBASSY ADDIS ABABA 3039
RUEHRL/AMEMBASSY BERLIN 1471
RUEHBY/AMEMBASSY CANBERRA 2302
RUEHDK/AMEMBASSY DAKAR 2669
RUEHKM/AMEMBASSY KAMPALA 3087
RUEHNR/AMEMBASSY NAIROBI 5530
RUEAIIA/CIA WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RHMFISS/EUCOM POLAD VAIHINGEN GE
RHEFDIA/DIA WASHDC
RUEHGV/USMISSION GENEVA 2217
RHEHAAA/NSC WASHDC

UNCLAS SECTION 01 OF 03 HARARE 000531

SENSITIVE
SIPDIS

AF/S FOR B. WALCH
DRL FOR N. WILETT
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
STATE PASS TO USAID FOR J. HARMON AND L. DOBBINS
STATE PASS TO NSC FOR SENIOR AFRICA DIRECTOR MICHELLE GAVIN

E.O. 12958: N/A
TAGS: EMIN ETRD PGOV PREL ZI ECON EAGR
SUBJECT: DEMAND FOR HIGHER WAGES A BURDEN ON ECONOMIC
RECOVERY

SUMMARY

¶1. (SBU) A survey of Zimbabwean-based businesses in mid-June revealed that foreign currency-denominated wage demands are becoming a critical challenge to an economic recovery given continued low productivity levels. A hyperinflationary mindset remains amongst workers, despite stabilizing prices, leading to regular calls from labor to raise wages. Unless the wage issue is successfully addressed by linking salary increases to productivity improvements, businesses will be unable to produce competitively for either domestic or international markets. END SUMMARY.

It was easier to pay workers during hyperinflation

¶2. (SBU) In mid-June, econoff and econ specialist met with a series of Zimbabwean business leaders to gain an understanding of the pressures wage demands are placing on Zimbabwean industries in the current dollarized, post-hyperinflationary environment. We spoke with representatives of the agricultural, manufacturing, apparel, construction, and mining sectors who collectively were struggling to avoid layoffs and meet employee payroll demands.

¶3. (SBU) Most companies interviewed stated that they were able to carry a larger workforce during hyperinflation because it cost them little in U.S. dollar terms to pay Zimbabwean dollar-denominated wages and allowances. The crashing value of the local currency allowed businesses to convert a few U.S. dollrs into Zimbabwe dollars at the end of each month to pay wages and buy food hampers for workers or pay them in the company's product. The chairman of the agricultural firm Interfresh, Lishon Chipango, explained that until dollarization occurred, the company paid only about 20

percent of wages in cash and supplemented wages with produce.
Sino-Zimbabwe Cement Company's General Manager for Administration, Mr. M. D. Moyo, told us that by January 2009 the company was paying all of its workers in bags of cement, which the workers then sold for foreign currency. According to him, this created a conflict of interest as salespeople were selling both company products and their own. Between September 2008 and the adoption of dollarization in January 2009, the company supplemented salaries with food hampers that cost little in U.S. dollar terms.

Wage demands not linked to productivity

¶4. (SBU) Following dollarization, companies are struggling to find sufficient foreign currency from sales to pay wages because of a general shortage of foreign-denominated cash in Zimbabwe. According to the President of the Matabeleland Chamber of Industries, Dumisani Sibanda, the average wage in the manufacturing sector is US$100 per month. Most companies interviewed stated that even these salaries are excessively
Qinterviewed stated that even these salaries are excessively
high given productivity levels. Not all firms we spoke with complained about salary demands. For instance, the Managing Director of apparel exporter Styles International Private Limited, Chitranjin Laxmidas, told us that his company's salaries ranged from US$100 to US$300 per month.

--- -
Businesses pleased with skills of workforce...

--- -

¶5. (SBU) All of the businesses with whom we spoke expressed satisfaction with the skills of Zimbabwean workers. The apparel sector in particular was eager to grow its workforce under the right conditions. Laxmidas and David Lasker, the Chief Executive Officer of Archer Clothing Private Limited, praised the high level of skills and strong work ethic that remain in Zimbabwe despite the exodus of skilled workers over the past decade. Laxmidas showed econ specialist applications for a junior bookkeeping position with the company that demonstrated high levels of education and experience. Such companies have also worked to maintain industry skills. For example, Laxmidas trains about 15 to 20 staff every three months and draws new staff from local technical colleges. The company aims to increase its staff from around 60 people to about 250 over the next six to twelve months as it ramps up exports.

...Though some still forced to downsize...

¶6. (SBU) Banking specialists noted that new layoffs were occurring because companies inefficiently carried excess staff during hyperinflation. This is no longer possible in today's dollarized economy. Some businesses were also skeptical of how quickly the economic turnaround would occur, making them reluctant to sink unnecessary levels of hard currency into increased payroll. Others continued to carry a larger workforce to compensate for the frequent sudden loss of workers as they chose to leave the country or could no longer afford transportation to work; these issues are abating.

¶7. (SBU) Archer Clothing Private Limited, for example, down-scaled its workforce from 1,500 in November 2008 to 1,000 because of restructuring which resulted in the adoption of leaner production techniques that shortened the assembly line. Archer pays workers an average of US$93 per month but dropped all other incentive schemes, such as performance and attendance bonuses. However, Lasker told us that the company expects workers to meet minimum productivity standards in

exchange for a steady foreign currency wage. Zimplow Ltd. CEO, Tiny Rowland, said the company has scaled down its workforce from 550 to 400 but should optimally be at about 375 employees.

-- ---------
...In the face of growing pressure for untenable wages
-- ---------

¶8. (SBU) The Matabeleland Chamber's Sibanda said that workers were demanding wages that were unaffordable to business. The manufacturing sector is trying to accommodate workers' demands by paying higher salaries, but they offset this by putting workers on half time. Sibanda told us that businesses are also under pressure to contribute to the National Social Security Authority's pension scheme, which QNational Social Security Authority's pension scheme, which was raised from 3 percent of the wage bill to 4 percent prior to dollarization. Treger Holdings Financial Director, Charmaine Kerr, identified labor as the company's primary pressure source. She said Treger struggles to pay its 5,000 workers. Kerr complained that even though the company already had a payroll of one million dollars per month, labor was demanding more. According to her, Treger cannot afford increases in the current environment and is therefore going to lay off 400 employees in July 2009.

¶9. (SBU) Econ specialist's meeting with Bata Shoes was cancelled due to a worker strike and we learned from Sino-Zimbabwe that Bata workers had successfully lobbied for higher wages several weeks earlier (workers had been paid US$45 per month), but were now pushing for more. Mining executives also complained that the labor unions were asking for "crazy" wages of about US$450 per month, which mining executives say won't happen because it is unsustainable under the current economy. They added that most mines already provided services o workers such as housing, schooling, and medical care which, along with wages, amounted to about US$400 per month.

COMMENT

¶10. (SBU) In an environment of high input costs, limited capital, rising utility prices, and low productivity, Zimbabwean businesses are being further pressured by increasing wage demands from labor. Unless labor costs rise in concert with future growth in productivity and consequently profitability, economic recovery will be slowed and formal employment will continue to stagnate or even decline. END COMMENT.

MCGEE